



VIRGINIA HEALTH WORKFORCE DEVELOPMENT AUTHORITY

INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS AS OF MAY 2019

Auditor of Public Accounts
Martha S. Mavredes, CPA
www.apa.virginia.gov
(804) 225-3350



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Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

August 13, 2019

Keisha Smith, Executive Director
Virginia Health Workforce Development Authority
3138 Westerre Parkway
Henrico, Virginia 23233

INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS

We have reviewed the Internal Control Questionnaire, completed on May 31, 2019, for the Virginia Health Workforce Development Authority (Authority). The purpose of this review was to evaluate if the agency has developed adequate internal controls over significant organizational areas and activities and not to express an opinion on the effectiveness of internal controls. Management of the Authority is responsible for establishing and maintaining an effective control environment.

The Auditor of Public Accounts has developed a new process for auditing agencies that are not required to have an audit every year, which we refer to as "cycled agencies." Traditionally, we audit these agencies at least once every three years. We now employ a risk-based approach to auditing the cycled agencies. Under this approach, annually we will perform a risk analysis for all of the cycled agencies considering certain criteria and divide the agencies into two pools. One pool will receive an annual audit and the other pool will be subject to review in a special project focused on one area of significance as well as a review of internal controls in the form of a questionnaire. Our intent is that all cycled agencies will complete an internal control questionnaire at least once every three years. This letter is to communicate the results of the Internal Control Questionnaire review.

Review Process

During the review, the agency completes an Internal Control Questionnaire that covers significant organizational areas and activities including payroll and human resources; revenues and expenses; procurement and contract management; capital assets; grants management; debt; and information technology and security. The questionnaire focuses on key controls over these areas and activities.

We review the agency responses and supporting documentation to determine the nature, timing, and extent of additional procedures. The nature, timing, and extent of the procedures selected depend on our judgment in assessing the likelihood that the controls may fail to prevent and/or detect events that could prevent the achievement of the control objectives. The procedures performed target risks or business functions deemed significant and involve reviewing internal policies and procedures. Depending on the results of our initial procedures, we may perform additional procedures including reviewing evidence to ascertain that select transactions are executed in accordance with the policies and procedures and conducting inquiries with management. The “Review Procedures” section below details the procedures performed for the Authority. The results of this review will be included within our risk analysis process for the upcoming year in determining which agencies we will audit.

Review Procedures

We reviewed a selection of system and transaction reconciliations in order to gain assurance that the Authority’s accounting system contains accurate data. The definitive source for internal control in the Commonwealth is the Agency Risk Management and Internal Control Standards (ARMICS) issued by the Department of Accounts (Accounts); therefore, we also included a review of ARMICS. The level of ARMICS review performed was based on judgment and the risk assessment at each agency. At some agencies only inquiry was necessary; while others included an in-depth analysis of the quality of the Stage 1 Agency-Level Internal Control Assessment Guide, or Stage 2 Process or Transaction-Level Control Assessment ARMICS processes. As a component unit of the Commonwealth, the Authority is not required to comply with the requirements of ARMICS. However, as performing a thorough risk assessment is a best management practice, we reviewed the Authority’s risk assessment process and compared it to the requirements of ARMICS. Further, we evaluated the agency’s process of completing and submitting attachments to Accounts.

We reviewed the Internal Control Questionnaire and supporting documentation detailing policies and procedures. As a result of our review, we performed additional procedures over the following areas: payroll and human resources; revenues and expenses; grants management; and information technology and security. These procedures included validating the existence of certain transactions; observing controls to determine if the controls are designed and implemented; reviewing transactions for compliance with internal and Commonwealth policies and procedures; and conducting further review over management’s risk assessment process.

As a result of these procedures, we noted areas that require management’s attention. These areas are detailed in the “Review Results” section below.

Review Results

We noted the following areas requiring management’s attention resulting from our review:

- The Authority does not have documented policies and procedures for all critical business areas. This presents the risks of performing functions incorrectly, an inappropriate employee

performing certain functions, and interrupted business continuity when there is turnover in key personnel. Additionally, multiple policies and procedures which the Authority does have in place have not been updated in several years and had no evidence of a recent review. Topic 20905 and other sections of the Commonwealth Accounting Policies and Procedures Manual require agencies to maintain and update their own internal policies and procedures. The Authority should document internal procedures for key business processes and review and update them regularly.

- The Authority does not perform a risk assessment to analyze potential events that would keep the Authority from achieving its objectives. As a component unit of the Commonwealth, the Authority is not required to comply with the requirements of ARMICS. However, as a best management practice, a thorough risk assessment would identify significant risks to the Authority and serve as a baseline from which to design appropriate controls. As risk assessment is a key component of internal control, the Authority should perform a risk assessment as part of its strategic planning process and use ARMICS standards as a guide to perform this assessment.
- The Authority did not submit all required information to Accounts for inclusion in the statewide financial statements. The State Comptroller's Directive 1-18 requires all component units of the Commonwealth to submit an attachment related to subsequent events, which the Authority did not provide. Additionally, the Authority does not have a process in place to identify events subsequent to the financial reporting date, which would warrant disclosure. The Authority should perform an analysis of all subsequent events and report this and all other required information to Accounts for inclusion in the statewide financial statements.
- The Authority does not track its balance of federal funds separately from other sources of funding. While the Authority does track the activity of the funds annually and ensures annual amounts spent do not exceed the amount of federal funds awarded, management cannot determine the remaining balance of non-federal funds from year to year. The Code of Federal Regulations (2 CFR § 200.403) outlines which items can be reimbursed under federal grants, but funds raised in addition to amounts required to match the federal funds can be spent at the Authority's discretion. Without keeping segregated running totals of non-federal funds, the Authority risks spending grant funds on unallowable costs and risks not fully utilizing its additional non-grant funds. The Authority should determine the balance of non-federal funds it has and track this balance as these funds accumulate over time. This will enable management to know exactly what federal and non-federal funds it holds at any point in time.
- The Authority did not maintain documentation of approval for a disbursement to the Executive Director. There was a verbal agreement and approval from the appropriate members of the Board of Directors to make this payment. However, there was no evidence of this explicit approval prior to payment. Additionally, the Authority does not have a procedure in place to ensure all payroll-related expenses are approved by an appropriate

individual prior to payment. The Authority should ensure that all transactions show evidence of proper approval and document this process in a formal internal procedure.

- The Authority's management and designated officials have not filed Statements of Economic Interests or financial disclosure forms as required by Executive Order Number Eight from the Governor. This Executive Order clarifies which individuals should submit these forms in accordance with § 2.2-3117 of the Code of Virginia in order to avoid the appearance of conflicts of interest. The Authority should ensure the Executive Director completes a Statement of Economic Interests and that all employees and officials identified in this Executive Order complete financial disclosure forms.
- The Authority has an outdated memorandum of agreement (MOA) with an active contractor. Operating under an expired agreement risks allowing the contractor to question or challenge the payment or terms of the agreement. It also presents the risk of a misunderstanding by either side as to the responsibilities of the contractor and the Authority. Additionally, a regular review of agreements allows the Authority to update terms as its needs change. The Authority should regularly review and update MOAs as they reach their expiration dates and re-visit the contract terms to ensure they are meeting the needs of the Authority.
- The Authority has not implemented an appropriate information security framework. While the Authority has adopted the Commonwealth's Information Security Standard, SEC 501 (Security Standard) for its Password Protection Policy, the Authority has not established a program to address the remaining aspects of its information security. Management should implement an information security program that incorporates, at a minimum, the applicable security controls outlined in the Security Standard to protect its sensitive and critical data from unauthorized disclosure, corruption, and loss.
- The Authority does not have information security policies and procedures applicable to the agency's information technology (IT) environment to govern its information security program and establish controls over both sensitive and non-sensitive information systems. The Authority should complete formalized policies and procedures to comply with section 1.4 of the Security Standard. Once completed, the Authority should complete risk management and contingency documentation that aligns with the requirements in the newly implemented IT Security Policy and the Security Standard.
- The Authority does not protect its externally hosted sensitive data in accordance with the Commonwealth's Hosted Environment Information Security Standard, SEC 525 (Hosted Security Standard). Although the Authority is not required to adhere to the Hosted Security Standard, our review found that the Authority does not have its own processes to ensure data protection by the vendors that host and process sensitive data. Specifically, the Authority has not evaluated the sensitivity of the IT systems, defined the roles and responsibilities of the vendors, required the vendors to comply with the Security Standard, or obtained and reviewed the third-parties' independent audit reports. The Authority should

perform each of these tasks using the Hosted Security Standard as a reference to reduce the risk associated with externally hosted data.

We discussed these matters with management on August 5, 2019. Management's response to the findings identified in our review is included in the section titled "Agency Response." We did not validate management's response and, accordingly, cannot take a position on whether or not it adequately addresses the issues in this report.

This report is intended for the information and use of management. However, it is a public record and its distribution is not limited.

Sincerely,

Auditor of Public Accounts

JDE/vks



VIRGINIA HEALTH WORKFORCE DEVELOPMENT AUTHORITY

3831 Westerre Parkway, Suite 2, Henrico, Virginia 23233

Phone: 804-562-4928 * Fax: 804-658-4193

August 28, 2019

Martha S. Mavredes
Auditor of Public Accounts
P. O. Box 1295
Richmond, Virginia 23218

Dear Ms. Mavredes:

The Virginia Health Workforce Development Authority (the Authority) has reviewed the results letter issued by your office for the fiscal year that ended June 30, 2018. We concur with your findings and recommendations with regard to certain matters pertaining to areas and activities involving internal controls.

Actions continue to be taken to address areas that were identified, and we expect significant progress or resolution of those issues before the next audit. The Authority will continue to focus on improvement opportunities, including identifying adequate resources to ensure the highest standard of financial operations.

We appreciate the thorough review and recommendations to improve our internal controls.

Sincerely,

Keisha L. Smith, MPA
Executive Director